

Message Text

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ORIGIN XMB-04

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FM SECSTATE WASHDC

TO AMEMBASSY ALGIERS PRIORITY

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E.O. 11652: N/A

TAGS: EFIN, AG

SUBJECT: EXIMBANK POLICY RE ALGERIA

REF: (A) ALGIERS 367; (B) STATE 209838

1. SUPPLIERS' PERCEPTION OF EXIMBANK ATTITUDE TOWARD PROJECTS CITED IN REF A MAY BE UNDULY NEGATIVE. REQUESTS WERE NOT REJECTED OUT OF HAND, AND CASES ARE STILL CONSIDERED BY EXIM TO BE UNDER CONSIDERATION OR POTENTIALLY SO. EXIMBANK REPLY IN EACH CASE WAS CONSISTENT WITH BANK POLICY AS PREVIOUSLY DESCRIBED TO EMBASSY IN REF B AND REITERATED IN PARA 5 BELOW.

2. AMATEX (TEXTILES) WAS TOLD THAT SEVEN-MILL PROJECT SO LARGE IT WOULD BE DIFFICULT FOR BANK TO TAKE ON ALL AT ONCE, WHERE-AS IF IT COULD PERHAPS BE SCALED DOWN SUBSTANTIALLY THERE MIGHT BE SOME POSSIBILITY OF EXIMBANK ASSISTANCE IN FINANCING.

3. GE (POWER PLANT) WAS TOLD THAT IN ABSENCE OF INFO ON OVERALL JIJEL INDUSTRIAL COMPLEX IT IS IMPOSSIBLE AT THIS TIME TO REACH A JUDGMENT ON ONE OF SEVERAL INTERDEPENDENT PROJECTS,

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I.E., ALUMINUM, STEEL, PORT DEVELOPMENT, AND POWER, AND THAT

THEIR REQUEST WAS PREMATURE. AS YOU ARE AWARE, EXIM HAS PROVIDED FINANCING FOR ALUMINUM SMELTER FEASIBILITY STUDY BEING DONE BY KAISER.

4. DESALINATION PROJECT DIFFICULT BECAUSE, CONSSTENT WITH CONTINUED POLICY OF SELECTIVITY, EXIMBANK INDICATED IT WOULD REQUIRE COMPREHENSIVE MARKET STUDY SHOWING THAT PULP AND PAPER PROJECT FOR WHICH WATER IS NEEDED WOULD EARN OR SAVE FOREIGN EXCHANGE IN SUFFICIENT AMOUNT TO SERVICE ALL DEBT RELATED TO PROJECT.

5. NONE OF ABOVE SHOULD BE TAKEN TO INDICATE ANY CHANGE IN BANK'S POLICY SET FORTH IN REF B. IN VIEW OF ALGERIA'S RAPIDLY INCREASING DEBT AND LESS RAPIDLY GROWING INCOME, BANK'S POLICY REMAINS ONE OF SELECTIVITY WITH EMPHASIS ON PROJECTS IN ENERGY SECTOR WHICH HAVE DIRECT POSITIVE IMPACT ON ALGERIA'S EXCHANGE EARNING CAPACITY AND SATISFACTORY RATE OF ECONOMIC RETURN. HENCE RECENT APPROVALS OF PRELIMINARY COMMITMENTS FOR DRILLING RIGS, ALUMINUM SMELTER FEASIBILITY STUDY, AND GAS CYCLING PLANTS, AS WELL AS CONTINUING FLOW OF SMALLER SUPPLIER CREDIT TRANSACTIONS. EXIM DOES NOT OPERATE ON BASIS OF LENDING LIMITS OR CELINGS. ON THE OTHER HAND, WITH PRESENT EXPOSURE OF ABOUT DOLS 700 MILLION AND POTENTIAL RXPOSURE OF EASILY A BILLION DOLLARS WITHOUT COUNTING SEVERAL MAJOR PROJECTS ON HORIZON, BANK KEEPS ALGERIA'S FINANCIAL SITUATION UNDER CONTINUING REVIEW AND GIVES REQUESTS CLOSE SCRUTINY, IN COMMON WITH COMMERCIAL LENDERS AND OTHER EXPORT CREDIT AGENCIES. EXPOSURE CLEARLY CANNOT CONTINUE TO MOUNT AT THE RAPID RATE IT HAS IN THE PAST FEW YEARS. BANK CANNOT SIMPLY TAKE ON ALL CASES PRESENTED TO IT, AND ALGERIANS HAVE LONG SINCE BEEN GIVEN TO UNDERSTAND THIS.

6. GOA SHOULD NOT BE LED TO THINK THAT SUPPLIERS SPEAK FOR EXIMBANK.

IF U. S. FIRMS FEEL OBLIGED TO TELL ALGERIANS THAT EXIM FINANCING OUTLOOK IS DIM FOR THEIR PARTICULAR PROJECTS, THAT IS THEIR AFFAIR, BUT BANK CONTINUES TO FOLLOW CASE-BY-CASE APPROACH, AND IS BY NO MEANS CLOSED IN ALGERIA.

7. OTHER THAN CASES CITED IN REFTEL AND DISCUSSED ABOVE, EXIMBANK HAS PENDING FOLLOWING REQUESTS:

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(A) FORMAL LOAN APPLICATION FROM AIR ALGERIE FOR DOLS 15.4 MILLION OR 40 PERCENT OF US COSTS OF DOLS 38.5 MILLION OF ONE 727 AND THREE 737 JET AIRCRAFT (IN ADDITION TO AIRCRAFT FOR WHICH CREDIT APPROVED IN OCTOBER 1975) IS BEING PROCESSED; WHEN DECISION REACHED EMBASSY WILL BE ADVISED.

(B) M.W. KELLOGG CO. APPLIED FOR PRELIMINARY COMMITMENT FOR AMMONIA PLANT WITH US COSTS OF DOLS 108 MILLION. BANK FORWARDED

LIST OF QUESTIONS TO SONATRACH, WHO ACKNOWLEDGED QUERY BUT SAID PROJECT WAS OF LOW PRIORITY. IN VIEW OF THIS AND LIKELY WORLD OVERSUPPLY OF AMMONIA, APPROVAL UNLIKELY TO BE RECOMMENDED.

(C) MORRISON KNUDSEN APPLIED FOR PRELIMINARY COMMITMENT FOR SONATRACH GAS TURBINE REPAIR FACILITY WITH US COSTS OF DOLS 19 MILLION, BUT OMITTED US COSTS OF DOLS 30 MILLION FOR TRAINING. GE IS LIKELY SOURCE OF EQUIPMENT AND TRAINING. SINCE THIS WAS ONLY PARTIAL APPLICATION WITH INCOMPLETE INFORMATION, NO ACTION LIKELY TO BE TAKEN SOON.

8. REF A AND THIS RESPONSE DISCUSSED WITH EMBASSY E/C OFF FLACK WHEN HE VISITED EXIM ON FEBRUARY 20. IT IS HOPED THAT ABOVE POINTS WILL CLARIFY SITUATION. KISSINGER

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